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# FARM OPERATING LOANS

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U.S. DEPT. OF AGRICULTURE  
FARM OPERATING LOANS



A Rural Credit Agency of the  
U.S. DEPARTMENT  
OF AGRICULTURE

FARMERS HOME  
ADMINISTRATION  
Program Aid No. 1002

# FARM OPERATING LOANS

The Farmers Home Administration (FmHA) makes and guarantees farm operating loans and provides technical management assistance to family farmers and ranchers. A "family farm" is defined as one that a family can operate and manage itself with a reasonable amount of hired labor.

These loans are tailored to a borrower's needs. The FmHA county supervisor helps the borrower analyze problems, determine available resources, and plan how the resources can best be used.

Each applicant is given equal consideration without regard to race, national origin, color, religion, sex, marital status, or age.

## HOW CAN LOAN FUNDS BE USED?

Farm operating loan funds may be used to pay for items needed for a successful operation. Some of these items include livestock, poultry, farm and home equipment, feed, seed, fuel, fertilizer, chemicals, hail and other crop insurance, food, clothing, medical care, and hired labor. Certain debts may be refinanced with a FmHA loan fund.

Minor improvements to buildings and real estate may be made, and water systems can be developed for home, livestock, and irrigation use. Funds can be used to finance the purchase of equipment for producing and harvesting trees and other products, for producing fish under controlled conditions, for roadside produce markets, and for nonfarm business and recreational enterprises, such as fishing, horseback riding, camping, and hunting enterprises.

Funds also can be used to control and abate pollution and to alter equipment facilities, or methods of operation to comply with the Occupational Safety and Health Act (OSHA) of 1970.

### **WHAT ARE THE TERMS AND INTEREST RATES?**

Three methods are used to determine interest rates.

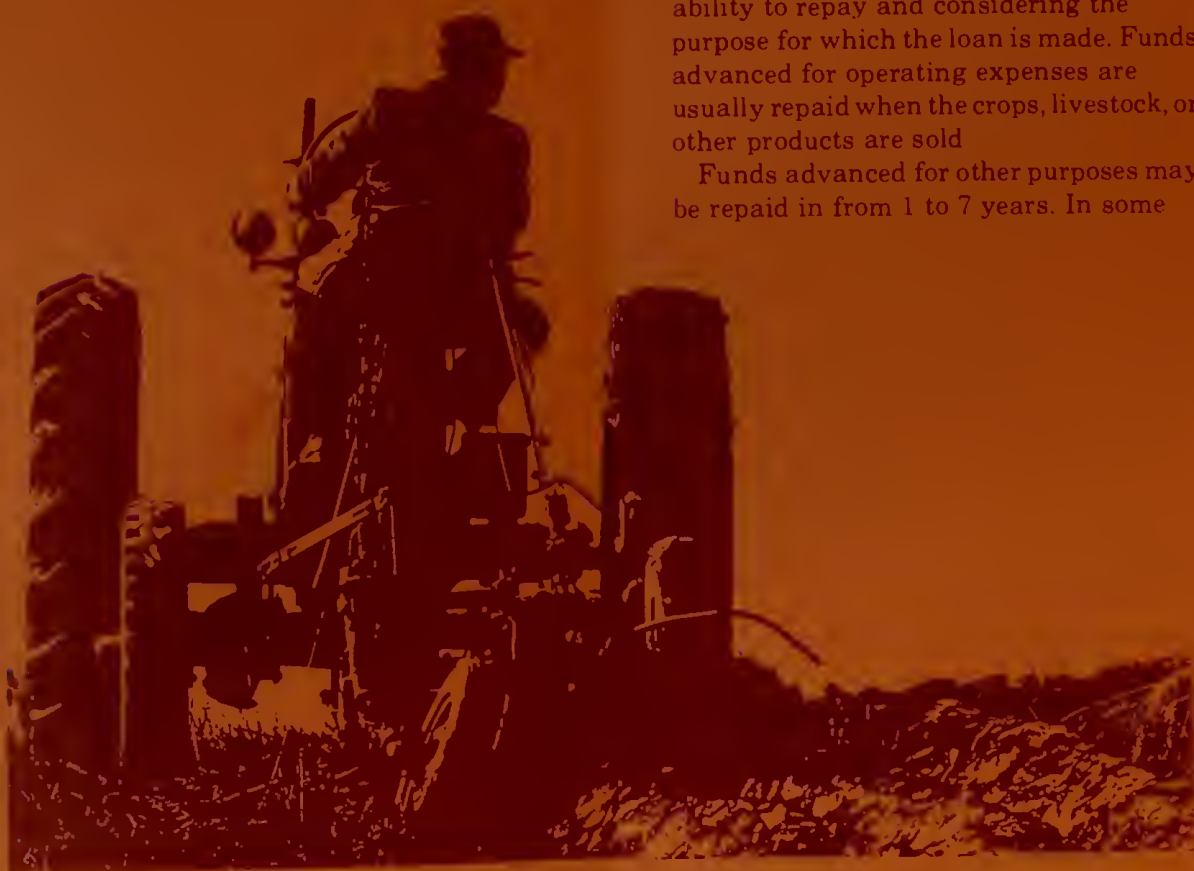
1. For loans made directly by FmHA, the interest rate is set periodically, based on the Federal Government's cost of borrowing. If a borrower can obtain a non-FmHA loan to refinance the operating loan, the borrower will be expected to do so

2. For applicants with limited resources who cannot repay a loan at the standard interest rate, a lower interest rate is available. Low-interest loans are made for 3 years. At the end of the 3 years and every 2 years thereafter, the borrower's financial situation is reviewed to determine whether the rate should be raised.

3. For loans made by other lenders and guaranteed by FmHA, the interest rate is negotiated between the lender and the borrower. The rate may not exceed a maximum set by the Secretary of Agriculture.

When FmHA makes the loan, repayment is scheduled according to the borrower's ability to repay and considering the purpose for which the loan is made. Funds advanced for operating expenses are usually repaid when the crops, livestock, or other products are sold.

Funds advanced for other purposes may be repaid in from 1 to 7 years. In some



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cases, a borrower may be given up to 7 additional years to repay a loan.

When FmHA guarantees a loan from another lender, the repayment terms will be agreed upon by the borrower and the lender, not to exceed 7 years.

## **WHO CAN BORROW?**

Individuals, corporations, cooperatives, and partnerships that will conduct family-size farming or ranching operations may apply.

To be eligible, an individual must:

1. Have farm experience or training and possess the character, industry and managerial ability to carry out the operation.
2. Possess the legal capacity to incur the obligations of the loan.
3. Be unable to obtain sufficient credit elsewhere at reasonable rates and terms.
4. Have the ability to repay the loan.
5. Be a citizen of the United States.
6. Be an owner or tenant operating a family farm after the loan is closed.
7. Need to rely on farm income and any other income to provide a level of living comparable to that considered reasonably adequate for the area.
8. Try honestly to carry out the terms and conditions of the loan.

Certain corporations, cooperatives, and partnerships (or “entities”) operating family-sized farms are now eligible for farm operating loans. Your county FmHA office can explain eligibility rules in detail. In brief, a partnership, corporation or cooperative (entity) must meet some of the same eligibility requirements as individual applicants. In addition, if members, stockholders or shareholders of the entity are related by blood or marriage,



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at least one stockholder, shareholder or partner must operate the family-sized farm. The entity must be authorized to operate a farm in the state in which it is located.

In the case of an entity *not* related by blood or marriage, a majority of the members of the entity must operate the family-sized farm to be eligible. The entity must be authorized to operate a farm in the state in which it is located.

Limited resource applicants must meet the above requirements. In addition they must have a low income and show a need for increased farm income. In the case of limited resource partnerships, cooperatives, or corporations, all the partners, members, or stockholders must be citizens and the entity must be the owner-operator of the family farm with at least one partner, member or stockholder operating the farm.

Contact the local FmHA office for more information.

## **WHO DETERMINES ELIGIBILITY?**

The county or area committee of the FmHA determines eligibility of applicants under the law. The committee consists of three persons who know local farming and credit conditions.

## **IF THE APPLICANT IS ELIGIBLE, WHAT IS THE NEXT STEP?**

The FmHA county supervisor will assist the applicant in working out a plan to make the best use of land, labor, livestock, capital, and equipment. Before a loan is made, it must be clear that the borrower will have enough income to meet operating and family expenses and to repay the loan and other debts.



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## **SHOULD A TENANT HAVE A WRITTEN LEASE?**

In most cases, yes. With or without a written lease, however, a farm operating loan will not be made unless the applicant has the use of a farm for a long enough period to carry out a successful farming operation.

## **WHAT ASSISTANCE CAN THE BORROWER EXPECT AFTER RECEIVING A LOAN?**

These loans are accompanied by technical advice to help borrowers make profitable use of their land, water, labor, capital, and other resources.

## **CAN A BORROWER USE OTHER CREDIT?**

Yes. Borrowers are encouraged to obtain needed additional credit from other sources when it is available to them at reasonable rates and terms.

## **WHAT SECURITY IS REQUIRED?**

Each loan will be secured adequately to protect the interests of the Government. Security usually consists of a first lien on crops to be produced and on livestock and equipment purchased or refinanced with loan funds. A lien may be taken on certain other chattel and real estate property, and an assignment usually will be taken on income such as that from a dairy enterprise.

## **WHAT DETERMINES THE SIZE OF THE LOAN?**

The county supervisor and the applicant determine the amount of farm operating credit that is needed for the operation. The limit on farm operating loans made directly by FmHA is \$100,000. The agency can guarantee loans of up to \$200,000 for operating purposes.

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## **CAN A PART-TIME FARMER QUALIFY FOR A LOAN?**

Yes, if otherwise eligible and if the farming income is necessary to provide adequate family income.

## **DOES IT COST ANYTHING TO APPLY FOR A LOAN?**

No. If a loan is made, however, the borrower pays the fees charged for lien searches and for filing and recording the security instruments.

## **WHERE CAN YOU APPLY FOR A LOAN?**

Apply at the FmHA county office serving the area in which you expect to carry out your operations.

If you are unable to locate the local FmHA office, write the Farmers Home Administration, U.S. Department of Agriculture, Washington, D.C. 20250. Be sure to give the name of the county in which you plan to operate a farm.

## **WHAT OTHER FARM-RELATED LOANS ARE MADE BY FmHA?**

Loans may be made to: Purchase and develop farms; build and improve rural homes and essential farm buildings; finance projects for rural youths; meet emergency credit needs of farmers suffering from economic hardship or natural disaster; provide individual rental and labor housing; develop community facilities such as water and sewer service; and install business or industrial enterprises.

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